

# **SNAPSHOTS OF OUR DAIRY AUSTRALIA LEVY AT WORK: TAKING STOCK**

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## **Take home messages**

- **Taking Stock (TS) provides a facilitated business analysis to all Australian dairy farmers**
- **It has been utilised by over 1700 dairy farmers to date**
- **It can highlight a range of opportunities, both specific and broad**
- **Addressing these opportunities can involve further work with TS advisers or other dairy professionals**

## **What is Taking Stock?**

Taking Stock provides a facilitated business analysis to all Australian dairy farmers. Taking Stock continues to be developed collaboratively by the dairy industry (with strong guidance by Dairy Australia). Levy funds together with matching funds from participating organisations have made delivery possible and free to all dairy farmers.

Taking Stock has been delivered one-on-one to 1,724 dairy farming families by one of 151 Dairy Australia trained and approved Taking Stock Advisers using the Taking Stock Tool (or similar approved programs) as the basis for discussion and analysis.

On farm, a Taking Stock Business Analysis involves three to four hours of one-on-one discussion and consultation and at the end of the analysis a Taking Stock Action Plan is developed which identifies the issues, actions and resources required specifically for that farm family and begins the process of addressing them.

Follow-up contact is made after the initial consultation, to gauge the level of action taken, and support required and to ensure that there is a longer-term sense of support and mentoring.

## **Achieving Understanding**

### ***Case Study 1***

Case study 1 is a dairy business operated by an older couple who had purchased their first dairy farm after years working in the agricultural sector.

The farm comprised of 54 hectares was fully developed but only two thirds of the property had been used during 2003/04. The herd of 120 cows produced 462 kg MS/cow.

Prior to conducting the analysis of the business, the couple felt disappointed with what their business had achieved.

Table 1 outlines the actual performance of the business in 2003/04 and an estimate of the business performance in a Year In Year Out (YIYO) situation.

	<b>2003/04 actual</b>	<b>YIYO from 2003/04 actual</b>
Operating surplus	\$77,793 (42.8%)	\$120,997 (55.2%)
EBIT	\$25,913 (14.3%)	\$69,117 (31.5%)
RoTA	4.21%	11.23%
RoE	2.88%	16.13%

The 2003/04 results highlighted a RoTA that was 5 times that of the average farm business for the region and that overall the business was performing well. The YIYO results highlighted good returns were also likely in an average year and 5 years of average results would allow for the farm to be paid off.

Despite these results, the underlying feeling from the couple was that they were not happy with the overall returns being generated.

Discussion and additional work was undertaken over the next few months in relation to the options for the farm which included:

- to continue the operation as is
- that there was scope to increase production coming from the business via the full use of the available farm area although this was dismissed as the couple were adamant that they didn't want to milk any more cows
- that the farm was a saleable item

The successful outcome of the Taking Stock process, was that the farm was sold during the first half of 2004 to an adjoining neighbour which allowed for the couple to walk away with a modest capital gain on their purchase.

### ***Case Study 2***

Case study 2 is a corporate conversion farm, which commenced operation in the 90's producing 200,000 kg MS and will produce 500,000 kg MS in 2005/06.

The main questions that the investors had in relation to their business were:

- Where are our returns coming from?
- Was the current level of production still generating a return?

Table 2 outlines the results of the business over the past three years. It is interesting to note that the investors considered selling the business during 2003/04 due to the less than expected returns.

	<b>2003/04 actual</b>	<b>2004/05 actual</b>	<b>2005/06 provisional</b>
Operating surplus	\$261,000	\$391,000	\$557,000
EBIT	\$203,000	\$397,000	\$564,000
RoTA	5.79%	10.97%	14.84%
RoE	1.84%	13.21%	21.21%

After analysing the 2004/05 and 2005/06 results the investors are happy enough with the returns generated by their dairy business but how much of this return was due to buoyant trading conditions?

Table 3 outlines the YIYO results. The YIYO results are derived by standardising milk price, water price, concentrate price and fodder price.

	<b>YIYO from 2003/04</b>	<b>YIYO from 2004/05</b>	<b>YIYO from 2005/06</b>
Operating surplus	\$374,000	\$345,000	\$407,000
EBIT	\$316,000	\$351,000	\$414,000
RoTA	9.01%	9.70%	10.89%
RoE	10.62%	10.43%	12.64%

After analysing the YIYO results the investors were again happy enough with the likely returns that their business.

Table 4 outlines the YIYO operational results.

	<b>YIYO from 2003/04</b>	<b>YIYO from 2004/05</b>	<b>YIYO from 2005/06</b>
	<b>Operations</b>	<b>Operations</b>	<b>Operations</b>
Operating surplus	\$374,000	\$345,000	\$407,000
EBIT	\$316,000	\$287,000	\$330,000
RoTA	9.01%	7.93%	8.69%
RoE	10.62%	6.56%	7.85%

After Taking Stock, the investors had a better understanding that their original investment had grown at an average return of 8.5% per annum. Further comparison of the YIYO position and the YIYO operational position suggested that 74% of their return had come through the operation of the dairy business and 26% had come through the growth of their asset and through capital gain.

The YIYO operational analysis suggested that the increase in the level of production between 2003/04 and 2005/06 had added little to the business other than churn, however the YIYO analysis suggested that when growth was included the increase in the level of production was worth considering.

### **Conclusion**

Taking Stock isn't the only dairy business analysis model available for use, but it may be the only dairy business analysis model available that is delivered via a range of deliverers and isn't attached to some other form of advice.

The skills of the Taking Stock advisers and the network that has developed between the advisers allows direct access to a pool of knowledge and support to assist in the analysis of any farm business.

Taking Stock has highlighted a range of opportunities in many farm businesses. Some of these issues are as specific as the use and planning of fertiliser or how to minimise the exposure of the business to fluctuating grain prices. Many of the issues are much broader encompassing pasture production and utilisation, cow nutrition and feeding or finances and debt servicing. It is also important to note that in many businesses the most important thing to come out of the Taking Stock business analysis is that the business is performing very well.

Addressing these opportunities has in some instances involved ongoing work between the Taking Stock adviser and the farming family, in some instances with other Taking Stock advisers and in many other instances with other professionals with a broad range of expertise including crop production, animal nutrition, finance, taxation and succession planning.

The delivery of Taking Stock in its current format will continue to at least the end of June 2006. This still provides an opportunity for farmers who wish to participate for the first time and for those farmers who are now looking to do a second year review.



Cameron Smith has been involved with the dairy industry in northern Victoria for 14 years. He has worked as a DPI dairy extension officer, then as the Field Services Manager for Murray Goulburn Cooperative at Echuca and since 2004, as a private consultant, now with Farmanco.

As well as providing farm management advice to farmers and industry, he trains other service providers in Taking Stock, the new Dairy Australia farm and financial benchmarking service